Adjustable-Rate Mortgage (ARM)
A kind of home loan in which your interest rate is tied to a market index. As the index goes up or down, your interest rate and payments will also change at each scheduled adjustment period. These loans generally start out with an interest rate lower than a fixed-rate loan. This saves you money early on, and may help you qualify for a more expensive home. “Rate caps” limit the amount your interest can change during a given period.

Amortization
Gradually paying off a debt you owe, such as a mortgage, by making regular payments over a specified period of time. The payments must be sufficient to cover both principal and interest.

Annual Percentage Rate (APR)
A measure of both the interest charge as well as any other costs associated with the loan, such as discount points or lender origination fees, expressed as a single percentage rate. Because APR is designed to show you the total cost of a loan, it can be useful when comparing loans from different lenders.

Buyer’s Agent
A Buyer’s Agent is a real estate professional who represents the buyer and only the buyer in the purchase of a home. As a buyer, there’s typically no cost to you in working with a Buyer’s Agent, since he or she receives part of the commission paid by the seller when the house is sold. However, be sure to discuss compensation with any real estate agent before you start looking at homes, as conventions can vary from state to state and region to region.

Closing Costs
Fees paid to the bank or third parties for services provided during the application and closing process. These fees vary, but typically range from 2 – 6% of the total amount of the loan.

Collateral
Something of value that you can use to secure a loan. When the loan is for a mortgage, the collateral is always the home itself. The collateral becomes property of the bank if you default on your loan.

Credit Rating
A numerical score or rating given to a person by a credit bureau that helps a bank determine how likely you are to repay a new loan. To calculate your score, a credit agency considers factors such as how you pay your bills, your outstanding debt, how long you’ve had credit, the types of credit you’ve had and how many times you’ve applied for credit.

Default
When a borrower stops making payments on a mortgage loan or fails to comply with other requirements of the mortgage.

Down Payment
The amount of money a borrower puts down toward the cost of the home to secure a mortgage. Some lenders require a down payment of 20% to avoid mortgage insurance. The amount of the down payment may also affect the interest rate you pay.
Equity
The amount of the home’s value above what you owe on it.

Escrow
An escrow account is a special account that lenders set up to pay your property taxes and/or insurance. In some states, it is called an “impound” account. With an escrow account, you pay a portion of your taxes and/or insurance every month instead of once or twice a year. Each month, part of your monthly mortgage payment goes into your escrow account. When your taxes and insurance premiums are due, your lender pays those bills for you with the money in your escrow account.

Fixed-Rate Mortgage
A type of home loan in which the interest rate remains the same for the length of the loan. The most popular kind of home loan.

Home Inspection
A visual examination of the readily accessible areas of a home by a certified professional to provide an accurate evaluation of the home’s condition at the time of purchase.

Homeowners Insurance
A form of insurance that protects your property against loss from theft, liability and most common disasters. Mortgage lenders often require a borrower to maintain an amount of homeowners insurance on the property that is equal to the amount of the mortgage loan or the insurable value of the improvements.

Interest Rate
The money you pay a lender in exchange for a loan, expressed as a percentage of the amount you’ve borrowed.

Jumbo Loan
A loan that is for a larger dollar amount than the limits set by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines.

Loan Origination Fee
The amount charged by a lender or broker to begin a mortgage loan. A loan origination fee is usually one point, or 1% of the loan amount. For example, a one-point loan origination fee on a $100,000 mortgage would be $1,000.

Mortgage Banker
A bank employee who serves as your day-to-day contact with a mortgage lender. In addition to helping you select the right loan for your needs, the Mortgage Banker can also help you decide whether to buy discount points, figure out what you can afford in a house and complete your mortgage application.

Points (Discount Points)
A portion of your interest that you pay to the lender up front in exchange for a lower interest rate. One discount point is typically equal to 1% of the loan amount, paid at closing. For example, one point on a $100,000 loan would require an up-front payment of $1,000. There is no requirement to pay discount points. Generally speaking, the longer you plan to remain in a property or hold your mortgage, it is to your advantage to pay points.

Pre-Qualification
A process whereby a lender tells you how much you would be qualified to borrow based on information that you volunteer, but which the lender does not verify.

Principal Balance
The amount you owe on your mortgage, not counting interest. In other words, it’s the face amount of the loan minus any principal payments you have already made.

Private Mortgage Insurance (PMI)
An insurance policy that covers the bank in case you can’t pay your loan payments, and the bank can’t recoup the entire value of the loan on the house in foreclosure. Banks will generally require that you get this insurance if you put less than 20% down as a down payment.

Rate Lock
The guarantee of a specific interest rate for a specific period of time.

Seller’s Agent
A real estate professional that represents the seller, also known as a Listing Agent. If you are working with a Buyer’s Agent, you generally won’t have any direct contact with the Seller’s Agent. However, your agent will work closely with the Seller’s Agent on your behalf.

Settlement
Also known as “closing,” this is the process whereby the property changes hands from the seller to the buyer, after both parties fulfill a set of conditions.